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R E P O R T

on the

FINDINGS, CONCLUSIONS AND
RECOMMENDATIONS

on

ASSISTANCE FOR THE
NON-TRADITIONAL AGRICULTURAL
EXPORTS PROJECT

(Proj. No. 518-0019)

by

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

The Non-traditional Agricultural Exports Project could be compared to a shiny new Mercedes-Benz headed down the highway from Quito to Guayaquil. The gas tank is full. Four new white-wall tires have been purchased and mounted on the wheels. Full of promise and anticipation of the trip ahead, with the radio blaring, the trip begins. Three years later, in Cuenca, the car is no longer shiny, but mud spattered; there are dents in the fenders and one tire is flat, the motor is out of tune, there is a crack in the windshield and the gas tank is almost empty. The purpose of the trip is still feasible and we are still driving a Mercedes-Benz, but alot of work needs to be done if the journey is to be completed.

This is the state of FEDEXPOR and the Finance Facility today. Great strides have been made, but the trip is only just begun and much remains yet to do before it can be called a success. Nevertheless, numbers tell part of the story; exports of non-traditional agricultural exports have increased in 1987 over the same period in 1986 by 296 percent; \$27.01 million compared to \$6.83 million.

The goal of the project, was and is, to promote economic growth through the accelerated development of non-traditional agricultural based exports. The constraints which impeded the private agricultural sector from reaching their goals were:

1. The lack of market information and intelligence which would facilitate access to foreign markets, technologies and investment.
2. Lack of policies and strategic planning which would address non-traditional agricultural exports;
3. Shortage of both equity and long term debt financing for the expansion of productive, export oriented agribusiness activities.

The project is addressing these constraints through, a) the Information and Support services of FEDEXPOR and DEVRES; b) Policy and Planning role of ANDE and FEDEXPOR; The Finance Facilities of the Investment Credit Facility of the Central Bank of Ecuador and two private financieras. How successfully these constraints are presently being met, and what can be done about it, is the subject of this report.

In reality, this is not one project, but three. That is, the Mission is dealing with three separate components of

non-traditional agricultural exports, each with its own idiosyncracies. All components are not reacting as planned under the project paper. The credit line institutions have not fulfilled their original agreement and should be replaced or the credit arm of the project deobligated. The technical assistance agent has made progress, but should be up-graded, adjusted to present day Ecuadorean and international realities and slightly expanded in order to reach a more market attuned level of performance. The U.S. technical assistance contractor has fulfilled its stated duties and should be allowed to bow out on its termination date after turning over all equipment, files and other marketing reports. The Advisory Board and working group chaired and organized by ANDE has been very effective in promoting non-traditional exports and in keeping the business, banking and public sectors informed and cooperating. This has been among one of the more effective country groups that I have witnessed. ANDE and the Advisory Board should continue to be supported as an integral part of Mission strategy.

However, the real bright spot in the program is the wood working industry. Here there has been real progress made in terms of institution building, sustained growth in non-traditional exports and the integration of small and medium sized industrial firms with tree producers. The first three quarters of 1987 showed increases in foreign exchange receipts of 94 percent. The Mission should seriously consider continuing the INFORDE project, now funded out of S&T/Washington, when this project terminates in December 1988.

In order to bridge the gap between the PSD and RDO it is necessary to have some joint objectives which can be reached by joint projects. One of the problem areas of exporting non-traditional agricultural products from Ecuador into the U.S. has been one of pests and disease contaminated fruit and vegetables that have been kept out by the U.S.D.A. (APHIS). The reverse side of this problem is one of having non-traditional producers introduce new diseases or pests into Ecuador through the importation of plant breeding stock. A joint project to address this problem could be a strengthening project with the Ministry of Agriculture Laboratory of Sanidad Vegetal. This laboratory which does the inspection of all plant materials and pesticides coming into or out of the country, badly needs to be up-graded. They are willing to cooperate (and in fact in some cases are doing so; i.e. the laboratory located in Tumbaco is working with flower exporters through Eng. Cristobal Barba, a pathologist and toxicologist from MAG/Sanidad Vegetal). The project would be one of conducting seminars and two month short courses in-country, utilizing APHIS entomologist and pathologists;

courses in plant quarantine; virology, soil treatment, inspection methodology, pest identification and control, review and reform of Ecuadorean regulations. They would also like to have 3-4 scholarships per year for their personnel to receive Masters Degrees in the above. Funding for this could come from the non-traditional agricultural export project, but design input could be developed by both PSD and RDO.

There are some outstanding problems and issues which are covered in more detail in the body of the report. Among these would be the issue of the lack of project monitoring and the location of the project with the Mission organizational structure. The alternatives are three: a) Leave as is in the GDO; b) Have the PSD function remain in GDO, but remove the Non-Traditional Agricultural Export Project and transfer it to RDO; and, c) Restore PSD to its former office status with a chief, deputy and project managers.

To adequately address the issue, alternative b) or c) appear to have the greater validity. Alternative b) would be the logical choice if the project were to be expanded to include more agricultural institutions such as the Federation of Agricultural Chambers, CORMADERA, Sanidad Vegetal, Producers Associations. Alternative c) would be viable if the budget were increased to include other elements and if staffing were increased and up-graded to address the monitoring issue.

Another issue is the role of agribusiness within the Mission. Agriculture and the private sector, including banking and industry, must be seen as being integrated if an appropriate framework for a non-traditional agricultural export project program, including backward linkages to small producers and entrepreneurs, is to be developed and implemented.

The staffing to reach these objectives and goals would include the following recommendations.

Recommendations:

1. Re-open discussions with the CFN on credit line utilizing FOPEX. At the very least, this should be explored, in depth, to ascertain if CFN has improved their investment financing and their loan review process. It is suggested that Robert Laport and Howard Aller of AID/PRE/Investment Office be brought down for a three week TDY to evaluate the situation and see if this might be a viable alternative to the present situation of having the Fondo Financiero of the CBE be in complete charge of the Investment Credit Facility.

Issues to be looked at:

- Would FOPEX be willing to adopt a re-discount mode of lending?
- Would FOPEX be willing to raise interest rates to reflect market rates? Stated another way, would they raise them above the preferential rates FOPEX now extends?

Should Fopex not turn out to be a viable alternative to the CBE, serious consideration should be given to utilizing part of the balance of the Investment Credit Facility, i.e., \$1.0 million, as a credit line to FOPEX and the CFN. This credit line should be only utilized for long term credit to agro-industries for the processing of non-traditional agricultural products for export.

2. It is proposed to expand the ad hoc "working group" of ANDE which consists of representatives of FEDEXPOR, CBE, CFN, MAG, Agricultural Chambers of Commerce, Banco Popular, FINIBER, CISE, and formalize this group into an active, permanent arm of ANDE. This present group would be enlarged to include other agricultural based associations such as Asociacion de Industriales Madereros AIMA. The purpose of this group would be as an activist lobby and promotional "umbrella" federation of agricultural producer, agroindustrial and export associations. Their goal would be to raise the quality and standards of Ecuadorian products and promote exports of same. To assist them in this task, a technical assistant team from Fundacion Chile could be contracted for one year.

Approximate cost: T.A.: \$500,000; Core funding to ANDE for administrative support of group; studies, etc.: \$100,000.

3. CORMADERA. The Mission should support the creation and development of this non-profit, private sector corporation in the wood technology field. The opportunity to form an entity out of the cooperation between the public (MAG/DINAF) and private sector (AIMA; FENAPI; Camaras de Agricultura; ARTESA; CONACIT) is rare. CORMADERA will also set and control the grades and standards for the wood industry as well as perform testing services on a fee reimbursable basis. It will take over from MAG/DINAF the Conocoto Wood Technology Laboratories and selected professional personnel.

Cost - 1st. year of start-up: \$400,000.

4. Agribusiness advisor. If the project is to be modified and extended for another two years then it is recommended that an individual be contracted to act as project monitor and perform a liaison function between the project and the Private Sector Development section of the General Development Office. It is suggested that this individual have an agricultural production background as well as AID and private sector business experience so as to be able to act as coordinator between the USAID Agricultural Office, the GDO and the project. The advisor will provide technical guidance to ensure that various project activities are not only technically sound and coherent, but that they fit the Mission's development criteria. The contract should provide funding for local administrative support, a computer and short term consulting services. Funding for local contracting of financial analysis expertise on a purchase order basis should be included.

Cost - 2 years: \$350,000.

5. Credit Line. If the CFN option (see item 1.) does not prove feasible and the Mission decides to continue with the Central Bank, then the following recommendations should be considered.

It should be mentioned here that an in-depth report on the Investment Credit Facility by David Mantilla will be coming out at a later date with more details. Suffice it for now to present these summary suggestions which were the result of several discussions between Mr. Mantilla and the author of this report.

- A new PIL should be issued to the MinFin in simplified, concise language that clearly states procedures and requirements of all parties to the loan, including role of counterpart funds.

- Procedures in Mission should be simplified to allow the project manager in the PSD section to review and authorize credit requests and to be the final clearance authority before the voucher request goes to the Comptroller's office for reimbursement disbursement.

- An aggressive promotion campaign for the remaining balance of the credit line should be undertaken. The target should be the commercial banks and other financial institutions. It is estimated that a minimum credit

demand of fifteen solid projects exists today in the banks.

Conclusions

If the Mission were to rank the above recommendations together with the other suggestions to be found throughout the report, the priorities as to which efforts should receive the support should be based on the following criteria:

- Employment generation.
- Domestic and export earnings.
- Backward linkages to small rural producers and small-medium enterprises.
- Impact on economy.
- Future sustainability.
- Private/Public linkage and collaboration.

The number one priority would be CORMADERA. The ranking would be:

1. CORMADERA - Wood and forest products for export.
2. FEDEXPOR - Emphasis on flowers, vegetables, processed commodities.
3. ANDE.
4. Credit Line.

II. INTRODUCTION

DEVELOPMENT PHILOSOPHY OF NON-TRADITIONAL AGRICULTURAL EXPORT PROJECT

What follows are a few random thoughts on the rationale for the insistence of including the small farmer within the scope of non-traditional agricultural exports. The justification is not only for social equity reasons. There is a strong economic justification as well and thereby hangs the cloth out of which the Mission should tailor its new private sector development suit.

The adoption of new technology and new crops are cornerstones of employment oriented agricultural development. Increased foreign exchange problems and deteriorating markets and prices of traditional export commodities lead some sectors of the agricultural community to seek diversification in export crop production. Non-traditional export crops, vegetables, flowers and certain tropical fruits appear to be a promising option due to their high labor intensity and expanding demand in the U.S. and European markets. These crops then, lend themselves to small and medium sized farmer production. There are sound economic reasons for this. According to research that has been carried out in Guatemala and other countries, vegetable crops especially, have characteristics which apparently have negative returns to scale in production and management on large acreage units as compared to smaller units. This is especially true in third world countries where the farmer, his family and a few hired hands are the individuals involved in the labor. Nevertheless, there are certain risks in these crops for small producers. Such risks can result from crop failures, price collaps on the export market, and from a lack of and/or a breakdown of marketing institutions and communications. Since the new export crops are much more input-intensive, the potential absolute income loss for the farmer is higher than it is for the traditional crop.

Exports of non-traditional agricultural commodities, especially fresh product, from Ecuador, is not only risk prone from a production and marketing sense, but from government policy action as well. Such things as taxes, fees, surcharges, and exchange rate manipulation, are a factor in whether the farmer, large or small, will be able to flourish within the system.

In spite of the above, however, it has been demonstrated, that non-traditional export crops are substantially more profitable to farmers than traditional crops. For example, net returns

per unit of land of snowpeas, one of the important new crops in Ecuador, bring to the farmer on the average five times what he can obtain for growing corn. However, his inputs cost more. Short term financing poses a problem and indicates the importance of not only rural credit, but farmers organizations.

Non-traditional export crops create local employment directly on the farms and in the processing plants. They also create indirect employment through forward and backward linkages and multiplier effects resulting from increased income being spent on inputs and other farm and consumer goods. On studies done in other third world rural situations similar to Ecuador, labor input in agriculture increased in the export vegetable farms by forty-five percent. About half of this increase is covered by family labor and half by hired labor. The figures are even more dramatic for rural and market town based processing plants.

The purpose of the preceeding is to demonstrate that the Mission private sector and agricultural programs are intertwined and mutually dependent on one another's projects. A non-traditional agricultural export project cannot succeed by emphasizing one component over the others; production and marketing need to go hand in hand. Small producers, represented by their cooperatives or associations, need to become an integral part of FEDEXPOR, ANDE, and AIMA if these organizations expect to have sustained success in the export field.

One way for the Mission to assure that this will gradually come about is to emphasize rural based agro-industrial type projects. These have proved to be one of the most effective tools in LDC agricultural development, especially that of raw material processing. If properly designed, these projects will have the effect of including small producers as the suppliers of the raw material used in the processing plants, and at the same time become the source of jobs, particularly for women. The finished product is easier to export for a variety of reasons such as handling, quality control, transportation, seasonality, packaging and the alleviation of some of the risk factors mentioned previously.

What follows, is an attempt to guide the Mission into reviewing the concept of the Non-traditional Agricultural Exports Project so that support can be given to those components that clearly carry out the above philosophy.

III. REVIEW OF FINDINGS OF ASESOR EVALUATION

The ASESOR group is a local company that was contracted to conduct an evaluation of the project. This evaluation was completed in August 1986. The overall conclusion was that the project had been successful in that it was on its way to accomplishing what it had set out to do. In surveys taken among businessmen, 76 percent knew of the project; of this group, 92 percent had a positive image of the project and believed that they were benefited by it or could be benefited by it. What distracts from the findings is that the ASESOR group neglects to state the size of the survey sample. Nor do they provide a breakdown of the nature and size of the firms they contacted and the position within the firm of the interviewee. Thus the overall evaluation results are handicapped to a considerable degree. Nevertheless, some of the findings are of interest as they are a comparative guide to the situation of fifteen months ago and today.

The principal findings were as follows:

1. Subloan Disbursement Process. The evaluators and the businessmen they interviewed, complained about the delays in the system; it took an average of five months to obtain approval and disbursement to the ultimate borrower.
2. FEDEXPOR. Forty four percent of the firms interviewed had a positive opinion of FEDEXPOR and the work that it was doing on behalf of exports of non-traditional agricultural commodities. Nevertheless, most felt that as an organization there was room for improvement in such areas as a more aggressive marketing posture; better communications with the members and more services.
3. Commercial Missions. Ninety seven percent of the businessmen who had participated on commercial missions abroad, felt that these missions were useful. However, the opinion on the level of benefits gained varied, with a third feeling that great benefits were derived, a third feeling that the benefits were so-so, and the final group felt that the benefits from their trip were marginal. Many in the survey group expressed the opinion that bringing buyers to Ecuador would result in more positive benefits to a larger group and be more cost efficient.

4. ANDE. The opinion with regard to ANDE on the part of the survey group was very positive. There was confusion expressed on the part of the group as to the roles of ANDE and FEDEXPOR in the Non-traditional Agricultural Export project. Many could not differentiate between the two organizations with regard to their tasks.

The ASESOR group made several recommendations. Among them were that the roles of ANDE and FEDEXPOR should be more defined. ANDE should become an advisor to the project and play a more analytic role. It should also take the lead in developing and implementing training programs for the membership. The group recommended that FEDEXPOR place more emphasis on the mechanics of exporting; acting as well as a quality control regulator and supervisor of types and standards of commodities to be exported. FEDEXPOR would need to increase the number of qualified personnel in order to carry out this task.

A further recommendation had to do with the credit line under the loan portion of the project. ASESOR's advice here was to set up a revolving fund of \$1.0 million in the Central Bank that covered an operation span of three months.

IV. OPERATIONAL PROCEDURES

A. GRANT

1. ANDE and FEDEXPOR

Services provided.

It was contemplated at the design stage of this project that ANDE and FEDEXPOR would have complementary roles. ANDE would develop and carry out, through contracts, the bulk of the studies, seminars and workshops, leaving the promotion and marketing to FEDEXPOR. By and large, it has developed this way. The two organizations work well together, sharing in many cases the same members and working together on the project working committee.

ANDE was formed thirty years ago. Yet it has only been in recent years that this entity has been in a takeoff trajectory. During this period ANDE has contracted a number of studies and analysis that have contributed to the furtherance of non-traditional agricultural exports.

With the initiation of the Non-traditional Agricultural Export project, the institutional development of ANDE, FEDEXPOR and their member firms was given a major lift. All of the named institutions have an effect on the agricultural sector, especially on the exports of certain commodities. The increase was more notable on the coastal areas rather than in the highland Sierra. It is in this latter geographic part of the country that FEDEXPOR and ANDE are attempting to make their imprint. It is in these regions also that the Mission should concentrate in any future efforts. In other words, if this project is extended beyond the April 1988 cut-off date, it is upon Sierra crops and Sierra farmer's associations that the emphasis must be placed.

ANDE is also looking at agro-industry as an area that should be raised in importance, both as to technical assistance and credit. This is sound strategy, since these types of projects tend to be one of the most effective development tools we have; especially that of raw material processing. Agroindustrial projects could contribute significantly to Ecuador's economic development for the following reasons:

- Primary method of transforming raw material products in the sector into finished products for domestic consumption or exports.

- Food and fiber processing plants, mostly small and medium, constitute the majority of Ecuador's manufacturing sector. They are usually labor intensive, hence generate a great deal of employment.

- Can become a major source of exports. There would be less problems with quality and shipping problems than now occurs with fresh produce and other perishables.

- Provides nutrients critical to the population over a wider area and to a greater base.

Here again, Sierra agriculture should take first priority in the development of this new initiative, where economically and socially feasible.

However, there are a number of important factors in agro-industrial projects that should not be overlooked by ANDE and the Ecuadorean business community if emphasis is to be placed here in the future. These will be covered in the next section.

Objective:

ANDE has placed as a fundamental objective of her organization, the promotion of the non-traditional agricultural sector. The goal is to improve production in real terms by 5 percent a year beginning in 1990. This objective will be accomplished in the following manner:

- Reinforcing the capacity of existing private sector institutions that have linkages with the agroindustrial sector;

- Promote government policies that favor agricultural exports;

- Offer complementary financing to firms that join the program.

It is proposed to extend ANDE's contract for two more years, beyond the April, 1988 cut-off. The purpose of this extension would be to enable ANDE to strengthen her capabilities in the areas of marketing, agro-industry, technical assistance and training. In order to carry out studies and technical assistance for their members in the above, ANDE will hire a full-time trainer who will be in charge of developing training programs and designing

curriculum. The other areas will be contracted out by speciality and by project to technical assistance professionals.

The intent is to expand ANDE's reach into a broader based sector of the agricultural population. This will be carried out through a linkage with the Federation of Chambers of Agriculture. This new umbrella collaboration will enable the industrial and agricultural production arms of the private sector to join together for the first time in developing the Agro-industrial sector.

If ANDE and the Ecuadorean agricultural sector are going to place an emphasis on agroindustrial projects, they must carefully analyze three areas: Procurement; Marketing; and Processing. Of these, procurement and marketing are the most important and the most ignored among Ecuadorean businessmen. Procurement is important because raw materials are the dominant cost to most agroindustries and their quality is crucial; marketing is important (actually the most important of the three components) because unless there is a demand for the product, it has no economic basis.

Results:

- ANDE and FEDEXPOR have identified and classified forty separate projects that could become eligible for investment under the project.
- Pertinent studies and recommendations regarding air, land and sea transport have been completed
- ANDE and FEDEXPOR have compiled international market information for forty selected products that have potential for export.
- Experimental cultivations and pilot plots have been designed and put into place for a number of crops within distinct zones around the country. The products are the following:
 - Snow peas: Pichincha province.
 - Chickpeas: Manabi, Azuay and Imbabura provinces.
 - Melons: Manabi province.
 - Okra: Los Rios province.

- Ginger: Guayas province.

Work is proceeding on the forming of producer associations by ANDE and FEDEXPOR. In many cases these nascent groups have been provided with technical assistance to help them get started. One of the most dynamic of these new associations is the Quinoa group. Another is the Snow Peas Association. Both of these associations have already exported product to the U.S. market.

Flower production is another area that shows promise. FEDEXPOR has been working with several producers since the initiation of the project. Going from one flower producer with three hectares to twenty-six producers with approximately 200 hectares, land has been planted to roses, chrysanthemums, carnations and other varieties. 20,000 boxes of flowers are now being exported to the U.S. market annually with a market value of close to US\$12.0 million. This market is being expanded. One example of this new industry, is the small producers firm of Agro-Industrias Canta Claro, located in Ibarra. This producer of lilliums from imported bulbs, for export to U.S. and Switzerland, has been in business for two years. Manuel Mejia and his wife are working managers of a one hectare operation that employs twelve people year around. This number grows to between 26-30 employees at harvest three times a year. Mr. Mejia is very progressive and plans to expand his operation of cut flowers. The majority of his cut flowers are cold stored and shipped by air to market. Mr. Mejia has recently signed an agreement with the Universidad Tecnica del Norte, located in the city of Ibarra, which allows the University, which has just started a course in Floriculture, to conduct research and train post-graduate students on the Canta Claro premises. This agreement is of benefit to the firm and to flower production in the valley, both as to the training of future Ecuadorean floriculturists and for the researched results which are disseminated publically.

FEDEXPOR

Information and Support Services

This component was intended to be the driving force of the project. Marketing and technical information are crucial to any export program. Nevertheless, to date, this component would have to receive mixed marks. Compared to what existed before the project began, much has been accomplished. But a great deal more in the way of marketing studies, marketing forecasting, market

demand studies and statistical work has to be carried out by FEDEXPOR in order to provide this crucial information to Ecuadorean exporters. Part of the up-grading of these marketing information and support services is the hiring of qualified professionals to implement this expanded system.

FEDEXPOR at the present time has four full time staff, including the Director and three part time.

- Director: full time
- Advisor: part time
- Administrative Assistant: full time
- Public Relations Advisor: 1/4 time
- Advisor (Guayaquil): full time
- Computer operator: full time
- Secretary/Receptionist: part time.

FEDEXPOR's present capacities are primarily centered around obtaining, processing and disseminating information. Its major concerns have been policy related. Expanding this role to include market data, market prices, demand forecasting and statistics is consistent with FEDEXPOR's perceived mission and the desires of its membership, but not with its present capacities. Adding direct services to exporters and potential exporters which involve obtaining agronomy expertise, assessment of production problems, technical assistance requirements, brokerage and agent/representatives duties in foreign (read U.S.) ports are activities which will substantially alter the character of the organization and will require time to develop.

If FEDEXPOR is to take advantage of the momentum gained and continue to attract new members who will financially support other aspects of the operation, FEDEXPOR needs to add qualified professionals to its roster. Specifically, FEDEXPOR needs to hire the following full time personnel:

- Marketing professional/Secretary-assistant
- Administrator/Secretary-assistant
- Market Forecaster-statistician
- Special Administrative Assistant for Member Services

2. DEVRES

One of the difficulties DEVRES has always had with this project is defining its role vis a vis FEDEXPOR. DEVRES started out with the project, working from their

Washington, D.C. office with an apparently well liked, (by FEDEXPOR) and capable Chief-of-Party. Two years into the project they are now operating out of a Miami, Florida office, with another Chief-of-Party, technically capable, but not as acceptable to FEDEXPOR. Although FEDEXPOR and DEVRES communicate, long distance, operating procedures have not always been smooth.

The role definition is one of DEVRES following the scope of work in their contract, which calls for DEVRES to identify market opportunities and buyers of Ecuadorean non-traditional agricultural products; identify U.S. market rules, regulations and obstacles; supply information on same to FEDEXPOR and its members; act as market guide and identify and provide timely technical assistance through sub-contractors. This they have done. FEDEXPOR expects them to also act as agent and watch-dog at the point of sale for the product. This DEVRES is not set-up nor staffed to do. Hence the misunderstanding.

On the plus side DEVRES has provided some excellent technical assistance to FEDEXPOR in post-harvest handling seminars; information handling utilizing computers; organization of office information and membership information, as well as training. A request response system was designated by the DEVRES computer specialist in order to track communications at FEDEXPOR, but was apparently not implemented.

Services provided by DEVRES have been useful, but because of the antagonism i.e. DEVRES and FEDEXPOR, full advantage is not being taken of this organization. Early on, had project management done something to assess and alleviate this situation, particularly the long gap of nine months when DEVRES was without a Chief-of-Party, the relationship between the two organizations might be less strained today.

The lack of a project manager in the Mission for the last five months has only tended to exacerbate the situation.

Except for routine technical information sent to FEDEXPOR from the DEVRES Miami office; a recent field trip to Chilean asparagus production areas for several potential Ecuadorean grower/exporters and two very successful and well attended post harvest seminars (one in Quito and the other in Guayaquil) nothing else seems to justify keeping this contract past its termination date of April, 1988. The monthly cost of maintaining this contract is

approximately \$30,000. The cumulative funds spent are \$686,380 with a balance of \$160,605 in the contract. The total contract was for \$846,986. This includes a total fee of \$55,411; a total overhead and fringe of \$240,150; salaries of \$300,188.

In one respect this contract might be compared to a running faucet with no one in the Mission watching to determine what were the cost benefits to the project of this sub-operation. Another issue of concern with this contract is the fact that the rent on the Miami FEDEXPOR/DEVRES office is nine months in arrears. DEVRES blames FEDEXPOR and vice-versa. This is now being paid by DEVRES and will be charged to AID as an extra cost, thereby causing potential legal problems.

One might even suggest that it be may be more economical to close this sub-contract down by the end of this calendar year.

3. Related Projects - INFORDE, AIMA and CORMADERA

During 1985-1987 the Mission has supported the development of the private forest products industry of Ecuador through two activities:

1. A convenio between AIMA (Wood Products Industries Association) and FEDEXPOR to promote exports of wood products. \$50,000 over a period of two years from the Non-traditional Agricultural Export project partially funds this activity.
2. The INFORDE/NCSU/USAID project financed through AID/S&T/FENR has had a full time market development specialist in Quito. INFORDE has worked closely with AIMA in developing the export program.

INFORDE is funded by a grant to the Southeast Center for Forest economics Research via North Carolina State University. This is an experimental program designed to test and demonstrate private sector approaches to development of the wood and forestry sector. The program has two goals:

1. To develop markets for wood-based industries in Ecuador in order to mobilize private sector participation in forest development;

2. Encourage the GOE and the donor community to expand their support of private sector activities in the forestry and wood sectors.

INFORDE's strategy is based on promoting private sector forestry by assisting Ecuadorean firms and private institutions to:

1. Increase the value of wood-based products, including lumber and plywood as well as finished products such as furniture;
2. Raise the earnings of private forest based activities through improved technology;
3. Encourage direct private sector participation in reforestation and forest management.

In order to accomplish these goals, INFORDE has focussed on six specific tasks. These are:

- Promotion of increased use of wood in construction;
- Support to private sector reforestation activities;
- Improvement of sawmill technology;
- Strengthening of in-country sources of technical information and research support;
- Applied research in support of private forestry. CORMADERA is a good example of this.
- Strengthening of private sector institutions in the forestry sector.

Within the Mission export strategy of non-traditional commodities; the INFORDE project together with its counterpart Wood Products Industries Association (AIMA) is a real success story. In the relatively short period of two years, INFORDE has accomplished a great deal as shown by the following achievements:

Formation of a consortium of furniture exporters with AIMA, which has already succeeded in introducing several Ecuadorean firms to the export market for the first time. Exports have doubled since 1984.

- Initiated exports of wood furniture through cooperative efforts of several producers.
- Trained local personnel to provide assistance to the smaller rural industries in coordination with USAID/INSOTEC Small Industry project.
- Completion of a survey and promotion within the industry of the home-expansion market to measure the potential demand for wood in this important construction market.
- Formation of the non-profit Corporation for Technical Support to Wood Industries (CORMADERA) to provide technical support to wood processing industries and establish a national system of grades and standards for wood products.

One of the success stories within this successful project is that of the cooperation within the wood industry between the public and private sectors in order to export wood products. Nowhere is this more evident than in CORMADERA. CORMADERA has been formed by hundreds of small industries, sawyers, lumber and tree producers represented by their trade associations. It also has some of the large lumber producers and wood working firms represented by AIMA.

The National Forestry Directory of the Ministry of Agriculture also is playing a large role by donating the Wood Technology Research and Testing Laboratories in Conocoto.

The above activities and marketing contacts have provided a solid base on which significant long term contributions can be made to Ecuador's natural resources and economy. However, in order to reap these benefits, the work should be continued.

For example, the prospects are now excellent for linking small rural agroforestry farmers and sawmills to the furniture export and housing initiatives now underway. The stage has been set for wood products to make a major contribution to low cost housing programs over the next two years. There are signs that employment opportunities through commercial tree farming exports are on the increase with a resultant decreased pressure on natural forests. Ecuadorean exports for forest and wood industry products could well surpass other non-traditional agricultural exporters over the next decade.

Because of the good program links already established, there would continue to be cooperation between the two projects within the overall Mission portfolio. The INSOTEC small industry project on the coast would continue to receive technical assistance and market contacts from CORMADERA. MAG/DINAF Agroforestry project on the coast would receive technical support in wood utilization plus marketing contacts for agroforestry farmers from INFORDE's proposed activities outlined below.

A continuation of this sub-project under the Non-traditional Agricultural Export project makes a great deal of sense. Suggested activities would include:

- Export Promotion funding for AIMA for two years (1988-89) \$50,000.
- Development of Export Products and User-fee Quality Control Programs. Funding to CORMADERA for two years; \$125,000.
- Special Programs for Integrating Rural Producers and Agroforestry Farms to Export Activities. Funding to CORMADERA for two years; \$30,000.
- Training; Short courses for Small Producers and Sawyers on a Nationwide Basis. Funding to CORMADERA for two years; \$20,000.

INFORDE itself has a project completion date of December 1988. S&T will no longer fund this activity a year from now. Given the success this project has had in Ecuador, the Mission now has an excellent opportunity to link the forest products export drive, Agroforestry project and the new Natural Resources Management project into one sector project. This would rationalize the connection between agroforestry and the wood industry, employment generation in rural and urban sectors, and land and forest resource conservation. The forest products industry and exporters are only just beginning to recognize the potential of agroforestry as practiced by the colonos and other small farmers around the country as a significant source of their present and future wood needs. A new Natural Resources Management project should have as one of its components a domestic and export wood products marketing effort. This would entail strengthening farm-to-market linkages. Much of this new program would be building on foundations already laid down by INFORDE. This new effort would be a continuation of that work with no loss of momentum. The period should

be five years, starting FY 89 and the funding would be approximately \$2.0 million over the life of the project.

B. LOAN

Investment Credit Facility

It was expected that the Loan portion of the project (originally \$4.0 million; later amended for another \$4.0 million to a total of \$8.0 million) would leverage \$8.0 million in counterpart financing for the sector. This was in addition to the re-flows that were expected to affect the sector in a positive manner during the life time of the project. Unfortunately, through some ambiguous and contradictory language written into the PILs and agreements, this did not come about. A lack of attention to monitoring the Investment Credit Facility of the Central Bank and private Financieras also contributed. This aspect is being evaluated in depth by David Mantilla of PSD along with an assessment of credit demand and is the subject of a report by him which is due out shortly. Suffice it to say at this point, that it does not appear likely that re-flows will even begin to trickle into the non-traditional credit line by March 1988, nor will counterpart monies be willingly reinstated by the CBE unless sustained pressure (plus follow-up) is brought to bear on the intransigent Fondo Financiero management by AID.

Credit to the agribusiness export firms continues to be a constraint. Credit demand appears strong with approximately 15-20 solid non-traditional export projects awaiting lines of credit in the various commercial banks.

Initially, this project was greeted by the sector as crucial to Ecuador's export plans. The Investment Credit Facility is no longer hailed by the sector as a facilitator to these plans, but as a cumbersome, expensive, and drawn out mechanism that holds back, in many cases, progress. This mechanism needs desperately to be streamlined and once amended, promoted.

In terms of streamlining, a new PIL should be written by the Mission in simple concise language. This PIL should clearly set forth the procedures to be followed by all parties to the investment fund. It should clearly spell out the responsibilities of the GOE and CBE with regard to counterpart funds and follow-up monitoring of the loan funds.

The role of AID in the sub-loan review should be evaluated and made more efficient. The Mission lacks the time and staff to afford multiple clearances of each sub-loan. The project manager in the PSD section should be designated the person responsible to review and authorize credit requests from the CBE. He should be given the final clearance authority before the voucher request goes to the Controller's office for reimbursement disbursement. The reimbursement request should not, normally, remain in the Controller's office for more than one week.

C. ISSUES

1. Agribusiness within AID

At issue is the tendency within the Agency to look upon agribusiness and agroindustrial projects as either agricultural or manufacturing (i.e. Private Sector) projects. This division reflects the fragmented structure of the analyzing institutions themselves:

Agricultural and Industrial Ministries;
Development Banks, Agriculture or Industrial;
AID and AID Consultants: Agricultural Economists,
Industrial Engineers, Financial and Trading types.

Agriculture and the private sector, including banking and industry, must be seen as being integrated if an appropriate framework for a non-traditional agricultural export project analysis and program is to be developed and implemented.

2. USAID Organizational Structure

The PSD office has been the original home of the Non-traditional Agricultural Export Project. The effect on this project of disbanding this office and folding it into the General Development Office has been negative. At issue is the fact that this project has not had effective monitoring for the past five months. The counterpart organizations such as FEDEXPOR, ANDE, Central Bank and the various associations look to this office for technical advice and guidance as well as subtle management.

They have expressed the lack of this guidance and as a result, there has been a notable, as in the case of the Investment Credit Facility, lack of compliance with the project agreements.

There are steps that could be taken to rectify this. The viable alternatives are three in number and they are:

- a. Leave as is. The PSD function could remain in the General Development Office together with the Non-traditional Agricultural Export Project. This is especially viable if the project is to be allowed to terminate on its PACD in April, 1988.
- b. Leave the PSD function in the General Development Office, but transfer the Non-traditional Agricultural Export Project to the Rural Development Office together with the Financial/Project consultant (David Mantilla) slot. This becomes important particularly if the project and/or its components, are extended for one or two years past the PACD and, if the project is broadened out to include more of the agricultural sector organizations such as the Federation of Agricultural Chambers, Sanidad Vegetal, Smaller Agricultural Producer Associations and QORNADERA.
- c. Restore the PSD to its former office status with a chief, assistant and project managers. This is a viable alternative if the project is to be extended and broadened to include other elements. It also would become important if the Mission were to fund the INFORDE wood project and if more technical assistance were to be brought to bear on the FEDEXPOR and ANDE projects.

Recommendation

The Mission, of course after careful study of all the ramifications, should weigh alternatives b) and c). If a PSD chief or project manager could be located with an agribusiness background and an understanding of small producer development, the choice should be item c). If not, then the choice should be item b).

3. Inventory - Miami Office

There is equipment such as computers, typewriters, FAX machine, telex, office furniture, etc. in the FEDEXPOR/DEVRES Miami office. This equipment totals \$14,625. (See list attached-Annex 2). It is important that the Mission be able to account for this equipment before DEVRES terminates their

contract in April, 1988 and that the turn-over of this equipment to FEDEXPOR be accomplished in an orderly fashion according to U.S. Government regulations. At issue is the fact that there appears to be no plan within PSD at present to do this.

ILLUSTRATIVE BUDGET

| | <u>First Year</u> | <u>Second Year</u> | <u>Total</u> |
|----------------------------|---|---|---|
| FEDEXFOR | 325,000 | 450,000 | 775,000 |
| ANDE | 210,000 | 210,000 | 420,000 |
| INFORDE (COMADERA/AIMA) | 125,000 | 100,000 | 225,000 |
| CONSULTANTS | 50,000 | 100,000 | 150,000 |
| CREDIT LINE | AID = \$4.0 million (original fund) Counterpart = BCE S/.200 million | AID = 0 Counterpart = \$1.0 (revolving Fund Created by original \$8.0 million credit line). | AID = \$4.0 million Counterpart = S/. 200 million Counterpart = \$1.0 million |

| | <u>Salaries</u> | | <u>Equipment</u> | | <u>Operation & TA</u> | | <u>Training</u> | | <u>Contingencies</u> |
|----------------------------|-------------------------|------------------|------------------|------------------|---|------------------|------------------|------------------|----------------------|
| | <u>1st. year</u> | <u>2nd. year</u> | <u>1st. year</u> | <u>2nd. year</u> | <u>Two years</u> | | <u>Two years</u> | | |
| FEDEXFOR | \$50,00 | \$90,000 | \$12,000 | \$27,000 | \$500,000 | | \$50,000 | | \$56,000 |
| ANDE | <u>Salaries</u> | | <u>Marketing</u> | | <u>Operation & TA</u> | | <u>Training</u> | | <u>Contingencies</u> |
| | <u>1st. year</u> | <u>2nd. year</u> | <u>1st. year</u> | <u>2nd. year</u> | <u>1st. year</u> | <u>2nd. year</u> | <u>1st. year</u> | <u>2nd. year</u> | |
| | \$25,000 | \$25,000 | \$50,000 | \$40,000 | \$100,000 | \$100,000 | \$35,000 | \$45,000 | - 0 - |
| INFORDE (COMADERA/AIMA) | <u>Expert Promotion</u> | | <u>Marketing</u> | | <u>Develop. of Product and Special Programs</u> | | <u>Training</u> | | <u>Contingencies</u> |
| | <u>1st. year</u> | <u>2nd. year</u> | <u>1st. year</u> | <u>2nd. year</u> | <u>1st. year</u> | <u>2nd. year</u> | <u>1st. year</u> | <u>2nd. year</u> | |
| | \$25,000 | \$25,000 | \$50,000 | \$15,000 | \$45,000 | \$45,000 | \$5,000 | \$15,000 | - 0 - |

| <u>Agribusiness Advisor/Project Manager</u> | | |
|---|--------------------|--------------|
| <u>First year</u> | <u>Second Year</u> | <u>Total</u> |
| \$150,000 | \$155,000 | \$305,000 |

A N N E X I

TERMS OF REFERENCE FOR PROJECT EVALUATION

It is recommended that an outside evaluation be conducted by an independent consulting firm in order to measure, in depth, the impact that the Non-traditional Agricultural Exports Project, (No. 518-0019) has had on the Ecuadorean economy, especially in the areas of employment generation and production of non-traditional agricultural crops.

A. Background

USAID/Ecuador's Nontraditional Agricultural Exports Project, No. 518-0019, was initiated in September 1984 to address three principles constraints limiting agribusiness production and exports marketing in Ecuador: (1) the lack of information which would facilitate access to foreign markets, technologies and investment; (2) the lack of a coherent set of policies and strategic planning which address the structural bases of declining agricultural production and non-traditional exports; and (3) a shortage of both equity and long term debt financing for the expansion of productive, export-oriented agribusiness activities. To address these constraints, the project is providing assistance through the following four related components: (1) information and support services; (2) policy and planning; (3) agribusiness finance facilities; and (4) an agribusiness advisory board and advisor.

A brief description of these four components is as follows:

1. Information and Support Services. This component is central to the project strategy of improving the flow of external information to promote agribusiness exports and investment. An information service has been established in the Federation of Ecuadorean Exporters (FEDEXPOR), a private organization which seeks to promote non-traditional exports. This service is facilitated by a linkage between FEDEXPOR and a U.S. intermediary organization which channels the required information to FEDEXPOR's clients. To complement this information service, FEDEXPOR sponsors workshops to address specific exporter problems and directly assists exporters in the documentation process.

2. Policy and Planning. The project is designed to strengthen FEDEXPOR's role as an effective contributor to the policy-making process on issues related to non-traditional exports. The project supports improved strategic planning by financing a series of analyses to identify high potential export products and to provide potential exporters with guidance to develop activities in these product areas.

3. Agribusiness Finance Facilities. Two complementary financing facilities support the development of agribusiness production and export activities generated under the other project components, as well as from other sources. A Reimbursable Fund has been established in two leading private financieras to provide financing for pre-investment studies and technical assistance. This Grant funded facility ensures access for firms seeking to develop new products and markets in line with the project strategy. In addition, an Investment Credit Facility has been established to help finance agribusiness production and export activities.

This fund is warranted in view of the critical shortage of long term credit affecting the Ecuadorean financial system as a result of past interest rate policies and the projected medium term shortage of credit to the private sector even with interest rate reform.

4. Agribusiness Advisory Board and Advisor. An Agribusiness Advisory Board, consisting primarily of leading representatives of the private agribusiness sector, has been established to improve communication among the GOE, private sector, and USAID on important issues affecting agribusiness, as well as provide advice on implementation of the project. An agribusiness advisor was integrating the various project components and to ensure that the project is focused on agribusiness activities which are technically sound and viable.

The project purpose is to generate non-traditional exports in the amount of \$63 million and to develop \$7.1 million in new investments. At the present time, more than \$20.0 million in exports have been generated through the project. The total amount of new investments is \$7.4 million in areas such as flowers, shrimp, spices, fruits and fish products. The original life of project funding totalled \$2.4 million in grant resources and a \$4.0 mn loan. In August 1986 USAID expanded the Investment Credit Facility by adding another \$4.0 million in loan funds, with the requirement that the Government

of Ecuador make available 200 million sucres in counterpart for the Investment Credit Facility. The GOE has complied with this requirement.

B. Scope of Work

The purpose of this evaluation is to completely review the project and to measure the impact that each of the four components has had on the production, export and employment generation in the non-traditional agricultural sector during the life of the project.

1. First, FEDEXPOR's performance in providing services to the agricultural export sector will be reviewed. During this same phase, the evaluation team will evaluate the potential of FEDEXPOR to increase exports through improvements in market forecasting as well as member services. Second, the team will ascertain what steps FEDEXPOR is taking to broaden out the range, scope and firm size of its membership. Third, the team will review each of the Mission's progress indicators and impact assesment indicators (outlined in the questions below) for the project as they pertain to FEDEXPOR and come up with a determination of whether the objectives have been met or whether there is a shortfall and the cause.

2. Agribusiness Finance Facilities. The team will work with data and financial indicators obtained through previous Mission efforts and using this data as a guide, will delve rigorously into the Investment Credit Facility to ascertain impact assesment of this portion of the project.

Questions:

The following questions need to be addressed and answered during the course of the evaluation. The questions are divided according to sections; each component having its own set of questions.

a. FEDEXPOR

1. What has been the total value and volume of non-traditional agricultural exports for each of the last two years and what percentage of this total was contributed by FEDEXPOR member firms? To what extent do the members represent a cross section of the non-traditional agricultural export sector?

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2. Of the totals in item 1, give the commodity breakdowns. Were these exports made with FEDEXPOR's assistance? How were they shipped? Under what terms? What was FEDEXPOR'S specific role in these transactions, (i.e., did they locate the buyer; arrange transportation; negotiate price and terms; provide technical assistance)?

3. Of the commodities listed in item 2, how many represent new exports generated through AID assistance?

4. What are the major marketing constraints faced by Ecuadorean agricultural producers and exporters? Is FEDEXPOR adequately addressing these marketing constraints? If so, how? Does FEDEXPOR have the in-house capability and qualified professional expertise to do the job?

5. What is the potential for increasing non-traditional agricultural exports from Ecuador through the provision of improved marketing services? Could the provision of these improved services generate more income for FEDEXPOR?

b. Agribusiness Finance Facilities

1. What is the private investment in the agricultural sector as a percent of GDP? Non-traditional agricultural sector? (Does not include shrimp, fish, coffee, bananas nor cacao.)

2. What are the current credit demand estimates for non-traditional agricultural commodity production and/or exports? What are the factors limiting this demand?

3. What has the impact been of the credit portion of the project on the following: a) levels of income of the participants; b) on the levels of non-traditional exports; c) foreign exchange earnings and d) the transfer of technology.

4. What has been the impact of the project on the following: a) employment generation, both direct and indirect; b) how many traditional farmers and what crops have been switched into non-traditional exports as a result of this project? c) total additional hectarge planted into non-traditional crops as a result of the project.

C. Composition of Team

The team would consist of three members and a team leader. The team should have a strong representation from the private sector and have experience in the agricultural export business in Latin America and the Caribbean. The length of time for the evaluation should be five weeks.

The make-up of the team would be as follows:

1. Team Leader

The team leader will have a minimum of 15 years in agricultural development with at least 10 years experience in the administration of AID programs and projects. Should have an advanced marketing degree and should have experience in working with agribusiness, export and/or investment related projects in Latin America. Spanish S, R, 3+.

2. Agricultural Economist/Marketing Specialist

Assistant to the team leader. Minimum M.S. Degree in Marketing Economics with minimum of 10 years experience at management level in marketing agricultural products and/or international trade. At least 5 years experience in the brokerage, transport and promotion of agricultural products from Latin America to the U.S. market. Spanish S, R, 3+.

3. Financial Analyst

MBA or equivalent with a minimum of 10 years experience in analysing credit programs, financial statements of banks and investment and agricultural operations. Experience in Latin America private sector. Spanish S, R, 3+.

4. Institutional Development Specialist

The institutional development specialist will have a minimum of 15 years experience in the development organization and management of an agricultural association, cooperative or similar institution. Latin American experience and Spanish desirable.

A N N E X I I

EQUIPMENT FOR MIAMI OFFICE

| <u>ITEM</u> | <u>COST</u> | <u>QTY.</u> | <u>TOTAL</u> |
|--|-------------|-------------|--------------|
| Executive desk | \$ 797.00 | 1 | \$ 797.00 |
| Executive chair | 356.00 | 1 | 356.00 |
| Secretarial desk | 909.00 | 1 | 909.00 |
| Secretarial chair | 192.00 | 1 | 192.00 |
| Side chairs | 255.00 | 2 | 510.00 |
| Computer table | 124.00 | 2 | 248.00 |
| Printer stand | 90.00 | 1 | 90.00 |
| File | 299.00 | 1 | 299.00 |
| Book cases | 200.00 | 2 | 400.00 |
| Dividers | 275.00 | 2 | 550.00 |
| Coffee table | 245.00 | 1 | 245.00 |
| Cabinet | 149.00 | 1 | 149.00 |
| Telephone installation | | | 322.00 |
| Telex | | | 2,785.00 |
| KAPRO PC Computer | 1,507.00 | 1 | 1,507.00 |
| Hard Disk Drive 20 mb | 432.00 | 1 | 432.00 |
| Silver Reed Printer | 967.00 | 1 | 967.00 |
| Panasonic Printer | 270.00 | 1 | 270.00 |
| Everex Modern | 162.00 | 1 | 162.00 |
| Surge Protector | 54.00 | 1 | 54.00 |
| Business Graphic Card | 432.00 | 1 | 432.00 |
| Softwares | | 7 | 1,629.00 |
| lotus-R. Base 5000 word perfect, Norton commander & Crosstalk | | | |
| Typewriter | 945.00 | 1 | 945.00 |
| Sign | 375.00 | 1 | 375.00 |
| Total | | | \$14,625.00 |